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No. 10-898

IN THE

Supreme Court of the United States

PRINCO CORPORATION AND
PRINCO AMERICA CORPORATION,
Petitioners,

v.

INTERNATIONAL TRADE COMMISSION
AND U.S. PHILIPS CORPORATION,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENT U.S. PHILIPS CORPORATION IN OPPOSITION

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QUESTION PRESENTED

Whether the en banc Federal Circuit erred in refusing to remand this 9-year-old case for further factual findings and consideration of whether a newly alleged agreement between Philips and Sony not to license a Sony patent could support a misuse defense to the enforcement of several Philips patents, where (i) Philips never imposed conditions on licensees extending beyond the proper scope of its own patent grants, (ii) there is no evidence that Sony ever refused a request to license its patent, and (iii) factual findings before the ITC make clear that the supposed agreement would not have caused any actual or potential harm to competition.

CORPORATE DISCLOSURE STATEMENT

U.S. Philips Corporation is a wholly-owned subsidiary of Philips Holding U.S.A., Inc., which in turn is a wholly-owned subsidiary of Koninklijke Philips Electronics N.V., a publicly held company. No publicly held company owns 10% or more of the shares of Koninklijke Philips Electronics N.V.

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STATEMENT

Petitioners' statement of the facts is incorrect or misleading in important respects. Moreover, petitioners' appendix in this Court, while voluminous, omits some pertinent materials, such as relevant factual findings made by the Administrative Law Judge.[1] The

[1] *Compare, e.g.*, Pet. 3-4 (portraying Sony involvement in development of CD-R and CD-RW technology as minimal) *with* C.A.

statement below relies on record evidence; factual findings by the ALJ or the International Trade Commission; and unanimous or majority opinions in the court of appeals. Record citations to material not included in the petition appendix may be found at pages 4-15 of Philips' opening brief on rehearing en banc.

1. Over the last forty years, Philips and Sony have collaborated closely in developing the technology for a series of optical memory products, beginning with development of the audio CD in the 1970s. *See* Pet. App. 5a. This collaboration continued through the 1980s, with the development of read-only data discs (CD-ROM) discs, followed later in that decade by the development of recordable (CD-R) and rewritable (CD-RW) compact discs.[2]

In order to promote the commercialization of their optical memory technology, Philips and Sony also developed a series of technical standards for these products, which in the case of CD-R/RW products are embodied in a manual known as the "Orange Book." Pet. App. 5a. In developing the standard, Sony and Philips engineers exchanged proposals for design elements and discussed, evaluated, and tested each other's proposals. *See* Pet. App. 5a-6a, 5h.

App. A509 (ALJ's findings that "Philips and Sony[] jointly developed CD-R and CD-RW technology in the early 1980s, as did others" and that "Philips' and Sony's joint development of CD-R and CD-RW technology was an outgrowth of their earlier joint development work on compact disc technology and the work of others").

[2] Although later developments are not reflected in the record in this case, Philips and Sony continued to collaborate in the development of read-only and then recordable DVD discs, and thereafter in the development of high-definition (Blu-Ray) discs.

CD-R/RW technology uses lasers to write information to discs. In their first joint technical meeting, Philips engineers explained to their Sony counterparts two foundational ideas: stamping a spiral "pregroove" into each disc so the laser could maintain proper positioning, and giving the pregroove a regular "wobble" or undulation of known frequency that would help the recorder or player to keep the disc rotating at the right speed. The Sony engineers then identified an important issue, which was how a recorder could determine exactly where it was writing on a blank or partially-recorded disc. The two teams agreed that each would study the problem. *See* Pet. App. 5a, 10b-11b.

At their next meeting, Philips proposed using an analog method of modulating the pregroove's wobble frequency to add periodic location codes. This system was eventually set out in two Philips patents (the Raaymakers patents). Sony engineers proposed two different approaches, one of which also started with Philips' pregroove but used a digital modulation method to add location codes. That method was later claimed in Sony's Lagadec patent. *See* Pet. App. 5a-6a.

After evaluating these proposals, the engineers jointly settled on the Philips approach, which "was simple and ... worked very well." Pet. App. 6a (ellipsis in original). In contrast, the Lagadec approach was "prone to error" and would have been "very difficult" to implement. *Id.* The analog modulation method was incorporated into the Orange Book standard. *Id.*

2. Philips and Sony commercialized their technology by defining the Orange Book standard and offering any interested manufacturer, for a standard per-disc royalty, a package license to the licensors' patents needed to make CD/R-RW discs. *See* Pet. App. 6a.

This arrangement helped foster widespread adoption of the standard and competition in implementing it, to the great benefit of consumers. Between 1996 and 2003 the annual output of CD-R discs increased more than 25-fold and the wholesale price per disc dropped from $4.75 to as low as 12 cents. *See* Philips C.A. En Banc Br. 8-9; C.A. App. A541-A542.[3]

Philips administered the CD-R and CD-RW package licensing arrangements for itself, Sony, and other patent holders. Pet. App. 6a. The package licenses were designed to assure licensees that the stated per-disc royalty would give them the right to use any of the licensors' patents that might be infringed by the manufacture of Orange Book discs. On this basis, "Philips included in the patent packages those patents that it regarded as potentially necessary to make Orange-Book-compliant CD-R or CD-RW discs, including the Raaymakers and Lagadec patents." *Id.*[4]

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[3] Petitioner quotes (Pet. 4) an assertion by the dissent below (Pet. App. 57a) that the royalty for CD-R/RW licenses "has ranged from one-half to two-thirds the manufacturers' selling price for the discs." The royalty rate for CD-R discs began at 3% of the manufacturer's net sales price with a minimum of ten yen (about eight cents) per disc. *See* Philips C.A. Panel Br. 14. By early 2001, licensees were paying only the minimum royalty. *Id.* The rate never increased, and rates as low as 2.5 cents per disc have been made available to licensees who demonstrate compliance with royalty obligations. *Id.* & n.6. The increase in the percentage of wholesale disc price attributable to the underlying intellectual property results from the fierce, pro-consumer competition among manufacturers generated by Philips and Sony's commercialization model.

[4] The Orange Book developers chose not to use Lagadec's digital modulation method. In 2001, however, an independent patent expert concluded that Claim 6 of the Lagadec patent (claiming

The package licenses granted only the right to use the licensors' patents to produce Orange Book discs. Pet. App. 6a. Nothing in them, however, required a licensee to use any of the licensed patents; prohibited it from using or developing different technology; or declared that the licensors would not make any of the patents covered by the Orange Book licenses available for other uses on other terms. Indeed, there is evidence in the record that Philips sometimes granted individually-negotiated licenses to some of its own patents for non-Orange Book uses. *See* Philips C.A. En Banc Br. 8. There is no evidence that either Sony or Philips was ever asked to license the Lagadec patent for any non-Orange Book purpose, or that either ever refused to do so.

3. Petitioners (collectively, Princo) make CD-R and CD-RW discs in Taiwan. In 1997, Princo signed a CD-R license agreement with Philips. It soon stopped paying royalties, but continued to export millions of infringing Orange Books discs to the United States.

In June 2002, Philips filed a complaint with the ITC under 19 U.S.C. § 1337, seeking an order excluding unlicensed discs from the United States based on their infringement of six Philips patents, including the Raaymakers patents. Princo resisted, arguing among other things that the Philips patents were unenforceable because the CD-R/RW package licenses amounted to anticompetitive "misuse." In testimony, however, its offi-

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an optically recorded disc with a spiral pre-groove modulated to encode information, without specifying digital or analog modulation) would read on any Orange Book-compliant disc and that the Lagadec patent was therefore essential to make those discs. *See* Pet. App. 12a-13a, 19b-26b.

cers complained mostly that Philips' royalties were unreasonable because its open-licensing policy caused *too much* competition, squeezing the manufacturers' profit margins. As Princo's president put it, "They give [licenses] to whoever would pay money for it. And so, there are too many producers worldwide, manufacturing discs; and so, they all compete with each other and, as a result, the price comes down." C.A. App. A2637.

The ALJ accepted Princo's misuse defense, articulating a variety of rationales. On review, the ITC adopted only a "tying" theory, holding that Philips' package licenses constituted *per se* patent misuse because licensees who wanted access to the "essential" Orange Book patents had to accept a license that also included at least four patents the ALJ found were *not* "essential" (*id.* at 35e-68e).

The Federal Circuit reversed. Pet. App. 1d-30d. The court rejected *per se* condemnation of Philips' package licensing arrangements, recognizing that including non-essential patents in the license could have significant procompetitive benefits. *Id.* at 13d-18d. It also held that the facts could not support a finding that including the four "nonessential" patents had any anticompetitive effect. *Id.* at 21d; *see id.* at 18d-30d. This Court denied review. 547 U.S. 1207 (No. 05-1341).

4. On remand, the ITC thoroughly considered and rejected the remaining misuse theories advanced by Princo and the ALJ. Pet. App. 1c-156c. As relevant here, the Commission specifically rejected statements by the ALJ that Philips and Sony were "horizontal competitors in the [Orange Book] patent licensing market." *Id.* at 19c n.12 (internal quotation marks omitted). It found no evidence that patents included in the package were potential competitors for each other (rather

than economic complements, useful when combined to enable production of a new product), *see id.* at 34c-36c, and no evidence "that, absent the pooling arrangements, the pool licensors would have competed in the technology licensing market," *id.* at 35c. In particular, the Commission rejected petitioners' argument that the Lagadec patent was a competitive alternative to Philips' Raaymakers patents. *Id.* at 30c-32c. There was "no evidence that the Lagadec approach is a commercially viable technological alternative" to the Raaymakers approach used in the Orange Book. *Id.* 32c n.20 (internal quotation marks omitted). On the contrary, the Lagadec method's commercial viability was "doubtful," because it was "prone to errors, unreliable, and unworkable." *Id.* The Commission found that Princo had made "no showing that the Lagadec '565 patent competes with another patent in the pool, no showing that the pool licensors would have competed in the technology licensing market absent the pooling arrangement, and no showing of ... anti-competitive effect" from its inclusion in the packages. *Id.* at 31c.

The ITC also found no evidence for the contention, advanced by its Investigative Attorney, that including the Lagadec patent in the Orange Book licenses discouraged Sony from creating a competing standard. Pet. App. 139c-142c; *see also id.* at 122c-139c. The ITC characterized that argument as mere "speculat[ion]," in the absence of any evidence that, absent the arrangement, Sony would likely have used the Lagadec patent to compete against the Orange Book standard and "'survived to become a significant competitive force.'" *Id.* at 140c-142c.

5. On appeal, petitioners for the first time focused their arguments solely on the Lagadec patent. A panel of the Federal Circuit unanimously rejected petition-

ers' conventional misuse arguments that the packages improperly forced licensees to pay for access to a patent that could not be used to make Orange Book discs. Pet. App. 15b-27b. The panel held that although the Orange Book did not adopt Lagadec's digital modulation method, "it would have been reasonable for a manufacturer to believe a license under Claim 6 [of Lagadec] was necessary" to practice the Orange Book standard, and thus it was reasonable to assure licensees that the Lagadec patent would not be asserted against them. *Id.* at 20b-21b.

The panel majority would have remanded, however, for consideration of a novel theory of misuse. Pet. App. 27b-46b. It reasoned that if Sony had agreed *not* to license the Lagadec patent for *non-Orange Book* purposes, such an agreement could be found to be misuse of Philips' Orange Book patents. Taking the view that such an agreement, if it existed, could serve no legitimate purpose (*e.g.*, *id.* at 32b), the panel held that it could be condemned with little further proof of any potential harm to competition. *See id.* at 34b-35b. Acknowledging the lack of relevant factual findings in the administrative record (*id.* at 41b) and that the burden of proof lay with Princo (*id.* at 45b), the majority nevertheless would have directed the ITC to consider what the record revealed about (i) the existence of an agreement not to license the Lagadec patent and (ii) "whether Lagadec was a potentially workable alternative to the Orange Book technology" (*id.*).

Judge Bryson dissented from the decision to remand. Pet. App. 48b-59b. He explained that, before the Commission, Princo "did not point to evidence that Sony was precluded from licensing Lagadec for non-Orange-Book uses." *Id.* at 59b. He also would have rejected the new theory of patent misuse "as a factual

matter based on the Commission's findings that the Lagadec technology did not work well and would not have competed with the Orange Book technology." *Id.* at 14a (describing panel dissent); *see id.* at 52b-59b.

6. On rehearing en banc, the Federal Circuit, by an 8-to-2 majority, vacated the portion of the panel decision dealing with the supposed agreement not to license Sony's Lagadec patent to compete against the Orange Book and affirmed the ITC's rejection of Princo's misuse defense. Pet. App. 1a-47a. It concluded that the alleged agreement would not be "the type of conduct that could give rise to the defense of ... misuse" of Philips' Orange Book patents. *Id.* at 15a. Tracing the development of the law (*id.* at 15a-25a), the court explained that misuse has always been a defense to enforcement of a particular patent, based on the patentee having improperly placed "conditions ... in patent licenses to require licensees [of that patent] to agree to anticompetitive terms going beyond the scope of the patent grant" (*id.* at 32a; *see also id.* at 21-22a). This case would present "a completely different scenario," involving a supposed agreement with another patent holder to restrict access to "an entirely different patent that was never asserted in the infringement action against Princo." *Id.* at 26a. "At bottom," the court explained, "Princo's complaint is not that its license to the [Philips] patents is unreasonably conditioned, but that the Lagadec patent has not been made available for non-Orange-Book uses. And that is not patent misuse under any court's definition of the term." *Id.* at 30a.

Alternatively, the court concluded that petitioners could not make out a misuse claim because, as a factual matter, they "failed to establish that the alleged agreement to suppress the Lagadec technology had anticompetitive effects." Pet. App. 33a; *see id.* at 32a-47a. Re-

fusing to discard the longstanding requirement that a misuse claimant establish such effects (*id.* at 33a-34a), the court analyzed the hypothesized agreement under standard antitrust principles. Applying those principles, it rejected Princo's contention that such an agreement would be "a naked restraint of trade with no procompetitive justification." *Id.* at 34a. Instead, any such agreement would have been ancillary to a legitimate technological and standard-setting collaboration that could have "decidedly procompetitive effects," and would therefore have to be evaluated under the rule of reason. *Id.* at 36a; *see id.* at 34a-38a; *see also id.* at 44a-46a (rejecting use of "quick look" analysis to shift burden to Philips to show lack of competitive harm). The court held that under a rule-of-reason analysis, Princo could not prevail because "the Commission's factual findings make it clear that even if there was such an agreement, it did not have the effect of suppressing potentially viable technology that could have competed with the Orange Book standards." *Id.* at 39a; *see id.* at 38a-47a.

Judges Prost and Mayer concurred in the majority's analysis of the record in this case, agreeing that "Princo failed to meet its burden of showing that any agreement regarding the Lagadec patent had anticompetitive effects." Pet. App. 48a-49a. They would not have reached the broader question whether such an agreement could ever constitute misuse. *Id.* at 49a-51a.

Judges Dyk and Gajarsa dissented. Pet. App. 52a-88a. Adhering to their views in the panel opinion, they would have remanded for a factual determination concerning the existence of the alleged agreement not to license the Lagadec patent. *See, e.g.*, *id.* at 62a n.8. If it existed, the dissenters would have held that it could, in combination with the terms of the package licenses, be

a misuse of the Philips patents in suit. *See id.* at 54a-55a, 62a-75a. The dissenters would also have treated the alleged agreement as "inherently suspect" (*id.* at 79a-80a); shifted to Philips "the burden to establish a justification or lack of anti-competitive effects" (*id.* at 81a-82a); and then concluded as a factual matter, at the appellate level, that Philips did not carry that burden (*id.* at 62a n.8, 82a-88a).

ARGUMENT

The Federal Circuit's en banc decision correctly explains the established contours of the patent misuse defense. It then explains why, in any event, factual findings made by the ITC would preclude a finding of misuse in this case even if, on remand, Princo could prove the existence of any non-compete agreement between Philips and Sony with respect to the Lagadec patent. The court's legal and factual conclusions are correct and do not warrant review by this Court.

1. As a threshold matter, it is important to emphasize the hypothetical basis on which this case has most recently been litigated. There is no factual finding that Sony and Philips ever agreed not to license Sony's Lagadec patent for possible use in developing some alternative technology to compete against the Orange Book or ever refused to grant such a license.

Princo and the dissent below now point to a 1993 letter confirming certain understandings between Philips and Sony with respect to CD-R (not CD-RW) licensing. *See* Pet. 5-6; Pet. App. 68a & n.9. That agreement—misleadingly excerpted by the dissent, but otherwise covered by an ITC protective order that precludes public quotation—was only indirectly referenced before the ALJ for purposes of establishing Philips' au-

thority to license Sony's CD-R patents for Orange Book uses. There was, accordingly, no factual exploration of whether the 1993 letter prevented Sony from licensing any of its patents, including Lagadec, for non-Orange Book purposes, as Princo now claims. *See* Philips C.A. Panel Br. 11, 40 & n.17.

Philips has consistently denied that the 1993 agreement prevented Sony from licensing the Lagadec patent for non-Orange Book purposes, as opposed to simply giving Philips the exclusive right to license that patent for use in making Orange Book-compliant discs. For present purposes, however, the most salient point is that petitioners—who bear the burden of proving misuse, *see, e.g.*, Pet. App. 14a, 45b—never hinted at this issue during factual development of the case before the ALJ. They never sought or obtained, from the ALJ or the Commission, any factual finding concerning any alleged restrictive agreement. They are bound by that failure on appeal.

2. Petitioners argue that the Federal Circuit's explication of patent misuse law departs from this Court's teachings by imposing a novel "leverage" requirement (Pet. 13-21) and requiring a showing of anticompetitive effect (Pet. 21-24). On the contrary, the court's decision applies long-settled law.

a. The court's opinion begins by tracing the development of the misuse defense in this Court's cases. Pet. App. 15a-18a. As it notes (*id.* at 17a), those cases involved patentees conditioning patent licenses or the sale of patented products on the purchase of a separate unpatented product, *see Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917); *Carbice Corp. of Am.* v. *American Patents Dev. Corp.*, 283 U.S. 27 (1931); *Morton Salt Co.* v. *G.S. Suppiger Co.*, 314

U.S. 488 (1942), on the payment of royalties after the expiration of the patent, *Brulotte* v. *Thys Co.*, 379 U.S. 29 (1964), or on the payment of royalties even on products that did not practice a licensed patent, *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 135 (1969). The common evil was that these practices sought to extend the limited monopoly granted by the patent, and the common principle is that "there are established limits which the patentee must not exceed in employing the leverage of his patent to control or limit the operations of the licensee." Pet. App. 18a (quoting *Zenith*, 395 U.S. at 136). The Federal Circuit's previous cases have accurately reflected that principle in their standard formulation that a patentee may not use restrictive conditions on licenses or sales to "impermissibly broaden the physical or temporal scope of the patent grant with anticompetitive effect." Pet. App. 18a (internal quotation marks and alteration omitted); *see id.* at 18a-19a (citing cases).

As the court of appeals recognized, this case involves "a completely different scenario." Pet. App. 26a. "The purported agreement between Philips and Sony has none of the features that courts have characterized as constituting patent misuse. In particular, it does not leverage the power of a patent to exact concessions from a licensee that are not fairly within the ambit of the patent right." *Id.* at 30a. Thus, "Philips is not imposing restrictive conditions on the use of [its] patents to enlarge the[ir] physical or temporal scope." *Id.* at 26a. Instead, Princo's asserted defense to enforcement of Philips' patents would rest on an alleged agreement between two patentees *not* to license "an entirely different [Sony] patent." *Id.*

b. Petitioners argue that the court's refusal to extend the misuse defense to the circumstances hypothe-

sized here transforms an equitable principle into "a narrow, static, and rigid formula." Pet. 14; *see also* Pet. 18. Their own more expansive theory, however, finds no support in this Court's cases or statutory law.

Petitioners cite (Pet. 15-16), for example, *United States* v. *U.S. Gypsum Co.*, 333 U.S. 364 (1948), and *Hartford-Empire Co.* v. *United States*, 323 U.S. 386 (1945). Those were antitrust cases, not invocations of the patent misuse defense, and neither addressed the type of conduct alleged here. *U.S. Gypsum* involved a scheme to use price-fixing provisions and other conditions imposed in collusive patent licenses to set product prices and suppress competing production. *See* 333 U.S. at 368-386. *Hartford-Empire* involved a scheme to pool more than 600 potentially competing patents owned by various patentees in order to control pricing and production in the glass industry. *See, e.g.*, 323 U.S. at 393-394, 400. As the Federal Circuit correctly recognized, such cases simply confirm that a patent or patent license—like any other asset or contract—may be used in an anticompetitive scheme. If it is, then "a patentee is not immunized against an antitrust violation by the privilege of a patent." Pet. App. 28a. No case supports expansion of an equitable defense against patent infringement to cover situations in which the infringed patents have not themselves been misused.

Similarly, nothing in *Illinois Tool Works Inc.* v. *Independent Ink, Inc.*, 547 U.S. 28 (2006), suggests extension of the misuse defense. That case overruled prior law that treated patents as proof of market power in the context of antitrust tying claims. *Id.* at 31. The Court relied on Congress's statutory elimination of any such presumption for purposes of the misuse defense. *Id.* at 42. That was the context of the Court's observation, cited by petitioners (Pet. 17) and the dissent below

(Pet. App. 53a), that a Congress that eliminated the presumption for misuse purposes surely would not have thought it should nonetheless be maintained under the antitrust laws. As the court below understood, "the Court was not suggesting that every antitrust violation committed by a patentee constitutes patent misuse." Pet. App. 24a n.3.

Morton Salt likewise does not support petitioners' suggestion of a vague "nexus" requirement that would be satisfied whenever "assertion of the patent is 'a contributing factor in thwarting the public policy underlying the grant of the patent.'" Pet. 18 (quoting *Morton Salt*, 314 U.S. at 493). The issue in the cited portion of this Court's discussion was not whether patent misuse had occurred, but rather who could assert a misuse defense. The Court held that the defense was available not only to sellers of unpatented products to which the patentee had sought to extend its patent power through improper tying, but also to competitors of the patentee's otherwise legitimately patented products. *Morton Salt*, 314 U.S. at 493. Nothing in *Morton Salt* supports petitioners' proposed reformulation of the misuse defense.

Finally, petitioners argue (Pet. 18a-21a) that the common-law misuse defense has been recognized in statutory law without any limitation that applies here. That argument begs the present question, which is the proper scope of the common-law defense. Nothing in petitioners' statutory argument makes its reading of this Court's cases any stronger. Moreover, as the court of appeals' opinion amply demonstrates (Pet. App. 22a-25a), Congress's careful limitation of the misuse defense in those respects it has addressed counsels strongly against judicial extension of the defense in the

unprecedented manner advocated by petitioners and the dissent below.

c. The court of appeals also properly adhered to the longstanding rule that a misuse defense requires proof of anticompetitive effects. Pet. App. 33a-34a. Petitioners offer no persuasive basis for review of that ruling. *See* Pet. 21-24.

The misuse defense's concern with anticompetitive effects did not "originate[]" in *Windsurfing International, Inc.* v. *AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986). *See* Pet. 23. On the contrary, it has animated every case in which this Court and others have recognized and applied the defense. As the Court recently observed in *Illinois Tool Works*, 547 U.S. at 38, the defense emerged in the first place because of concern that a patentee, by imposing conditions on the sale or use of a patented device, might restrain competition to a greater extent than Congress intended when it authorized the patent grant. Indeed, the Court's early misuse decisions viewed patents as tantamount to economic monopolies, and conditions going beyond the patent grant as *per se* harmful to competition. *See id.* Those views were then imported into antitrust cases as well. *See id.* at 39-40 (citing *International Salt Co.* v. *United States*, 332 U. S. 392 (1947)).

Over the years, Congress eliminated the presumption of patent-based market power from the misuse defense, *see* 35 U.S.C. § 271(d), and this Court followed suit as to antitrust cases, *see Illinois Tool*, 547 U.S. at 41. Those changes reflect a broader trend away from the imposition of *per se* limitations on potentially efficient business arrangements. *See, e.g., id.* at 35 ("Over the years ... this Court's strong disapproval of tying arrangements has substantially diminished."). Yet, pe-

titioners propose in effect the adoption of a *per se* rule of patent misuse. That proposal is anomalous in every respect. It does not merit further review.[5]

3. Petitioners argue that the Court should grant review and expand the misuse defense because antitrust law is inadequate to discourage "collusive agreements to suppress alternative technology." Pet. 26; *see* Pet. 26-31. As the court of appeals recognized, however, patent misuse is an equitable defense to the claimed infringement of specific patents, based on conduct that seeks to expand the physical or temporal scope of the patents in suit. *See* Pet. App. 20a-22a, 26a. Conduct that might harm competition in other ways, including alleged "suppression of nascent, unproven technology" (Pet. 31), is the proper concern of the antitrust laws. *See, e.g.*, Pet. App. 31a-32a; *United States* v. *Microsoft Corp.*, 253 F.3d 34, 79 (D.C. Cir. 2001) (en banc).

Petitioners complain that antitrust litigation is "procedurally cumbersome," and that "stringent standing requirements," "the difficulty of proving causation and damages," or other limitations make it inadequate to address the "nascent technology" situation. Pet. 31; *see* Pet. 26-31. But the antitrust laws provide "robust

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[5] Petitioners argue briefly (Pet. 24-25) that the decision below is inconsistent with cases involving so-called copyright misuse. This Court has never recognized a misuse defense in the copyright area, and the law in the lower courts is unsettled. *See, e.g.*, *Assessment Techs. of WI, LLC* v. *WIREdata, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003) (Posner, J.) (noting "open ... question whether copyright misuse, unless it rises to the level of an antitrust violation, is a defense to infringement"). If this Court wishes to consider for the first time the existence and proper contours of any copyright misuse defense, it should do so in a copyright case.

remedies" to those who—unlike petitioners—have meritorious claims. *See* Pet. App. 32a n.6. Any procedural limitations on the use of those powerful enforcement mechanisms reflect purposeful choices made by Congress and this Court to balance their deterrence of anticompetitive conduct against the significant risk that unfounded allegations and threats of litigation will themselves chill innovation and efficient, procompetitive business conduct. *See, e.g., Verizon Commc'ns Inc.* v. *Law Offices of Curtis V. Trinko, LLP*, 540 U.S. 398, 414 (2004); *Matsushita Elec. Indus. Co.* v. *Zenith Radio Corp.*, 475 U.S. 574, 594 (1986); *Broadcast Music, Inc.* v. *Columbia Broad. Sys., Inc.*, 441 U.S. 1, 23 (1979).[6]

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[6] Petitioners themselves raised antitrust counterclaims in response to Philips' separate district court suit against them for infringement of the Orange Book patents. *See U.S. Philips Corp.* v. *Princo Corp.*, No. 02-cv-246 (S.D.N.Y.) (filed Jan. 10, 2002). The district court dismissed those claims on various grounds, including timeliness, lack of antitrust injury, and lack of standing. *U.S. Philips Corp.* v. *Princo Corp.*, No. 02-cv-246, 2005 U.S. Dist. Lexis 6820 (S.D.N.Y. Jan. 24, 2005). After the district court entered judgment on all issues other than damages, Princo appealed on misuse issues but raised no antitrust issue. *See U.S. Philips Corp.* v. *Princo Corp.*, 173 F. App'x 832 (Fed. Cir. 2006). The district court's judgment dismissing the antitrust claims is therefore final. *See, e.g., Engel Indus., Inc.* v. *Lockformer Co.*, 166 F.3d 1379, 1838 (Fed. Cir. 1999). As to other issues in that case, the court of appeals remanded for reconsideration of Princo's misuse defense, and later granted Princo's petition for a writ of mandamus ordering the action stayed pending final resolution of this ITC proceeding, "including any appeals." *In re Princo Corp.*, 478 F.3d 1345, 1350 (relating procedural history), 1357 (ordering stay) (Fed. Cir.), reh'g den., 486 F.3d 1365 (2007). That stay, ordered more than four years ago, will finally terminate if and when this Court denies review in this case.

As the court of appeals observed, "there is no reason to believe [the usual] limitations [applicable under the antitrust laws] are inappropriate simply because a party is seeking relief against a patentee." Pet. App. 32a n.6. On the contrary, the risk of counter-productive chilling effects is very real where the challenged conduct involves innovative activities, such as technological collaborations and standard-setting, that can be highly procompetitive but are also expensive and already fraught with technological uncertainty and other business risks. This is surely the last area in which it would make sense to put the rewards for successful innovation at even greater risk by expanding a defense that, if accepted, leads not just to damages based on proven injury but to the unenforceability of otherwise valid patents.

4. There is likewise no force to petitioners' assertion that the decision below undertakes "a sweeping rewrite of antitrust principles." Pet. 31-32; *see* Pet. 31-35. The court of appeals correctly applied established principles to the agreement now alleged by petitioners, in light of the controlling factual findings by the ITC establishing that, even if there had been any such agreement, petitioners could not show either actual or potential harm to competition.

a. First, the court did not purport to establish any new principle rejecting summary or "quick look" analysis of a non-compete agreement "regardless of whether the agreement is ancillary to [a legitimate joint] venture." Pet. 32. On the contrary, it expressly acknowledged that "[a] quick-look analysis might be justified if the joint venture in this case were a sham, or if the alleged agreement were a naked restraint, i.e., not reasonably necessary to achieve the efficiency-enhancing benefits of the joint venture." Pet. App. 45a. It con-

cluded, however, that on the facts here, as found by the ITC and confirmed by the record, the newly-alleged agreement between Sony and Philips, if it existed, *would have been* ancillary to their legitimate venture. *Id.* at 37a-38a & n.7, 45a-46a. That conclusion—joined by eight members of the court below, *see id.* at 49a—does not warrant further review.

As the court explained, it has long been recognized that "an agreement among joint venturers not to compete against the joint venture is not a naked restraint, because it provides assurance that the resources invested by one joint venturer will not be undermined or competitively exploited to the sole benefit of the other." Pet. App. 45a; *see, e.g.*, *United States* v. *Addyston Pipe & Steel Co.*, 85 F. 271, 280-282 (6th Cir. 1898) (Taft, J.), *aff'd*, 175 U.S. 211 (1899); *Rothery Storage & Van Co.* v. *Atlas Van Lines, Inc.*, 792 F.2d 210, 214 (D.C. Cir. 1986); *Polk Bros., Inc.* v. *Forest City Enters., Inc.*, 776 F.2d 185, 189 (7th Cir. 1985). Such agreements are treated instead as ancillary restraints that serve the legitimate purpose "of securing their entire effort in the common enterprise," *Addyston Pipe & Steel*, 85 F. at 280, and must therefore be evaluated under the rule of reason, rather than condemned as naked restraints.

In this case, the restraint at issue in the court of appeals was a supposed agreement between Philips and Sony not to use the Lagadec patent to compete against the Orange Book standard they had jointly developed in the course of a decades-long collaboration to develop optical recording technology. There would have been no justification for the court to treat any such agreement as a "naked" or "inherently suspect" restraint that could be condemned after only a "quick look" or would trigger any shifting of the usual burdens of production or proof. *See* Pet. 32, 34. That sort of trun-

cated, skeptical review applies only where "an observer with even a rudimentary understanding of economics could conclude that the arrangements in question would have an anticompetitive effect on customers and markets." *California Dental Ass'n* v. *FTC*, 526 U.S. 756, 770 (1999). Here, in contrast, the alleged restraint would have been presumptively reasonable on its face, especially where its challengers could advance only "a theoretical claim of anticompetitive effects." *Id.* at 775 n.12. In those circumstances, if anything, only a "quick look" would have been required to *reject* the challenge. *Cf. American Needle, Inc.* v. *NFL*, 130 S. Ct. 2201, 2217 (2010) (rule of reason "'can sometimes be applied in the twinkling of an eye'").

b. The court of appeals did not require petitioners to satisfy any inappropriate or unrealistic standard in showing harm to competition under the rule of reason. *See* Pet. 32-34.

Relying on the standard articulated by this Court in *United States* v. *Penn-Olin Chemical Co.*, 378 U.S. 158 (1964), the court held that Princo would have to show "a 'reasonable probability' that the Lagadec technology, if available for licensing, would have matured into a competitive force in the storage technology market." Pet. App. 43a (quoting 378 U.S. at 175-176). Petitioners seek to distinguish *Penn-Olin* as involving only a "merger" (Pet. 32) but that is not correct. The case involved the decision by two potential competitors to engage in a joint venture to produce sodium chlorate, rather than to compete with each other in the relevant market. *See* 378 U.S. at 162-167. Petitioners do not explain why a joint venture to build a new factory would warrant categorically different treatment from a joint venture to develop new technology.

The *Penn-Olin* standard does not tolerate reliance on mere "speculative possibilit[ies]" (Pet. App. 43a), but neither does it require unreasonable precision in assessing likely competitive effects. *See, e.g.*, 378 U.S. at 176-177. There is no reason to think it cannot be used effectively to assess situations involving even "nascent" technologies (Pet. 33), if the relevant issues are timely raised and challengers can show a "reasonable probability" the new technology could have become a competitive force but for the alleged restraint. *Penn-Olin*, 378 U.S. at 176.

Quoting *Microsoft*, 253 F.3d at 79, petitioners argue that the *Penn-Olin* standard is "'edentulous'" in nascent-technology cases. Pet. 33-34. *Microsoft*, however, involved allegations of monopoly-maintenance and unilateral exclusionary conduct, not a joint venture or an ancillary agreement not to compete. Contrary to petitioners' suggestion (*id.*), it does not cite or quote *Penn-Olin*, let alone criticize application of the *Penn-Olin* standard in cases like this one. But more importantly, in *Microsoft*, the court found ample record evidence that Java and Navigator "reasonably constituted nascent threats at the time Microsoft engaged in the anticompetitive conduct at issue." 253 F.3d at 54.

Such evidence is totally lacking here. The Lagadec patent represented no more than "a theoretical solution" to a single technical issue. Pet. App. 42a. There is no evidence that any potential licensee "had even sought to explore [the] possibility" (*id.*) of developing a competing disc technology around Lagadec, or that the many complementary technologies necessary for such an undertaking were available or could or would have been developed. On the contrary, "[t]he record, and the findings of the [ITC], make clear that the Lagadec technology lacked both the technical and the commer-

cial prospects that would have made it a possible basis for a product that could compete with Orange Book-compliant discs in the data storage market." *Id.* at 46a; *see id.* at 39a-42a (discussing ITC findings). That fact-bound determination forecloses petitioners' misuse defense under any standard, and does not warrant review by this Court.

5. Finally, this case would be a poor vehicle for review of any issue by this Court.

First, the legal questions petitioners seek to raise concerning the patent misuse defense are largely irrelevant in this case, given the court's alternate factual holding that petitioners could not prove actual or potential harm to competition. *See* Pet. App. 32a-47a, 48a-49a. They are also entirely hypothetical, addressing the potential legal significance of a supposed restrictive agreement that petitioners did not allege before the ITC (*see, e.g.*, *id.* at 39a) and could not prove on the record in this case. If this Court were to address the legal issues Princo seeks to raise, it would be better to do so in a case that actually presents them on a well-developed factual record.

Second, this litigation, brought in the ITC in 2002, has now gone on so long that all but one of the patents asserted have expired. *See* Pet. App. 2c (listing patents). The final patent supporting the Commission's general exclusion order (No. 5,418,764) will expire on May 23, 2012, at which point the order will likewise expire in accordance with its terms. *See* C.A. App. A7. If this Court were to grant review, it is unclear whether a decision would be rendered before that date, and if the Court were to reverse there is no realistic possibility that proceedings on remand to determine even the existence of the agreement now alleged by petitioners

could be concluded before the case would become effectively moot.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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